

**IN THE INCOME TAX APPELLATE TRIBUNAL  
“A” BENCH : BANGALORE**

BEFORE SHRI LAXMI PRASAD SAHU, ACCOUNTANT MEMBER  
AND  
SHRI KESHAV DUBEY, JUDICIAL MEMBER

ITA No.77/Bang/2025
Assessment year : 2012-13

Fine Blanking Private Limited, Revadihal Road, Revadihal, Gokul, Hubballi - 580 030. <b>PAN: AAACF 2752K</b>	Vs.	The Income Tax Officer, Ward 1(1) & TPS, Hubli.
APPELLANT		RESPONDENT

Appellant by	:	Shri Vinay Kulkarni, CA
Respondent by	:	Ms. Neha Sahay, Jt.CIT(DR)(ITAT), Bengaluru.

Date of hearing	:	26.03.2025
Date of Pronouncement	:	02.04.2025

**ORDER**

*Per Laxmi Prasad Sahu, Accountant Member*

This appeal filed by the assessee is against the order passed by the Id. CIT(Appeals), National Faceless Appeal Centre, Delhi (NFAC) dated 19.11.2024 having DIN ITBA/NFAC/S/250/2024-25/1070468316(1) relating to assessment year 2012-13 on the following grounds:-

- “1. The order of the learned Assessing Officer in so far as it is against the appellant is opposed to law, equity and weight of evidence, probabilities, facts and circumstances of the case.
2. The appellant denies itself liable to be assessed to a total income of Rs.78,97,340/- as against the total income returned by the appellant of Rs. 51,98,590/- for the

impugned assessment year 2012-13 on the facts and circumstances of the case.

3. The Assessing Officer was not justified in disallowing the expenditure incurred on current repairs of machinery in the normal course of business, of Rs.31,75,000/- by stating that the same had to be capitalised on the facts and circumstances of the case.
4. Without prejudice to the contention that the expenditure was in the nature of current repairs of machinery and not capital expenditure, the expenditure ought to have been allowed as expenditure under section 37, of the Act.
5. The appellant craves leave to add, alter, delete or substitute any of the grounds urged above.
6. In view of the above and other grounds that may be urged at the time of the hearing of the appeal, the appellant prays that the appeal may be allowed and appropriate relief be granted in the interest of justice and equity.”

2. Briefly stated the facts of the case are that this is the second round of proceedings before the ITAT. The assessee is engaged in the business of manufacture and sale of auto and electrical components. It filed return of income declaring total income of Rs.51,98,590. The case was selected for scrutiny and statutory notices were issued to the assessee. The AO assessed income at Rs.1,57,96,534 after making various additions. Here the main dispute raised is that assessee has claimed revenue expenditure of Rs.39,81,198, however the revenue department treated it as capital expenditure. Against the 143(3) order, the assessee filed appeal before the First Appellate Authority (FAA) which was dismissed. Aggrieved, the assessee filed appeal before the ITAT. The coordinate Bench of ITAT deleted the other disallowances

made u/s. 40(a)(ia) and remanded the matter to the AO to verify and ascertain the true nature of expenditure incurred towards repair of machinery as to whether it is capital or revenue.

3. The appellant in the set aside proceedings filed all the details before the AO and the AO upon appreciation of the same confirmed the disallowance of one item of machinery claimed as revenue expenditure treating it as capital expenditure and allowing depreciation on the same and deleted the other additions. The appellant has in its manufacturing facility several specialised heavy machinery sourced over the years by either importing or sourcing them locally. During the course of hearing before the Id. CIT(Appeals), the assessee relied on various judgments of Hon'ble Apex Court and jurisdictional High Court. The Id. Id.CIT(Appeals) after considering the entire facts, grounds and submissions of the assessee confirmed the order of the AO. Aggrieved from the order of the Id.CIT(Appeals), the assessee filed appeal before the ITAT in the second round.

4. The Id. AR of the assessee reiterated the submissions made before the lower authorities and submitted that the AO has wrongly noted that machinery was replaced as old hydraulic system could not be repaired and treating that new machinery has been put to use and wrongly classified it as capital expenditure. It is a unique machine. The main machine namely SMG Feintool Germany File Blanking 630 Ton Press is second hand machine imported from Europe acquired by the appellant on 15.09.2008 for Rs.1,51,31,700 along with one of the

components of the main machine viz., hydraulic system. The same was part of the main machine. Over the period of time the hydraulic system was required to be replaced as a part of repairs and maintenance of the main machinery. The process of replacing a part of main machinery takes the character of repairs and maintenance. However during the course of assessment, the AO wrongly treated it as capital expenditure. The Id. AR further submitted that machinery consisted of 3 parts. Out of 3, two main parts were replaced. He requested that looking to the nature of expenditure towards replacement of control electronic panel which should be treated as revenue expenditure.

5. On the other hand, the Id. DR relied on the order of lower authorities and strongly submitted that the machine is a second hand machinery imported from Germany for the use of assessee and the Id. AR fairly accepted that 2/3<sup>rd</sup> parts have been replaced and there is no doubt that amount paid on account of current repairs was not included in the expenditure in the nature of capital expenditure. From the plain reading of the provision it is very much clear that if any amount is paid on account of repairs of any machinery or any other asset which is not capital in nature and is put to use for the purpose of business or profession, then such expenditure shall be allowed as revenue expenditure which is deductible from the income of the assessee. The appellant has incurred expenditure on account of replacement of one of the components namely Hydraulic system with electrical control panel of the main machine which was fused to the main machine viz., SMG Feintool Germany Fine Blanking 630 Ton Press. The assessee bought

second hand machinery, before buying the assessee must have done some pre-inspection on it and taken opinion of an expert and the assessee was knowing the present facts of the machinery that which parts are required to be replaced and how much cost would be required to bring into working conditions. The hydraulic system was also imported alongwith the main machinery. The replacement of aforesaid component viz., Hydraulic system with electrical control panel was made to restore the main machinery to its original condition and it increased the capacity of the main machine from the present condition and got advantage of enduring benefit due to replacement of such component. The Expenditure has been incurred to preserve and maintain the main machinery and that is why the machine was working in its capacity. Therefore replacement of Hydraulic system with electrical control panel of main machine increased the capacity of the machinery. The Id. DR relied on the order of ITAT Delhi in ITA No.2536/Del/2017 and she fairly submitted that in totality this judgment is against the revenue, but in para no.15 the coordinate Bench has distinguished the difference between capital and revenue expenditure. Para 15 of the judgment is as under:-

“ 15. There appears to be no error in the findings of Ld. CIT(A) while referring the matter back to Id. AO to consider the expenses into repair and maintenance expenses or replacement expenses. As a distinction has to be made if the replacement is of a baby part only, then the same cannot be considered to be a capital expenditure. It is only when a baby part alone cannot be repaired and the whole of machine is required to be replaced, the expenditure of replacement will be of capital nature. Thus, in regard to these grounds there is no substance in the contentions

on behalf of the revenue or the assessee. The grounds are disallowed.”

6. Considering the rival submissions, we note that here the dispute is only regarding the classification of expenditure incurred by the assessee of Rs.31,74,000 is capital or revenue expenditure towards replacement of Hydraulic system with electrical control panel of the main machine. During the course of hearing, the ld. AR of the assessee fairly accepted that the machine consists of 3 parts, out of which 2/3<sup>rd</sup> parts have been replaced. We note from the order of the ld. CIT(Appeals) that he has noted that SMG Feintool Germany Fine Blanking 630 Ton Press is second hand machine and imported alongwith its hydraulic system. Since this second hand machine is imported, it cannot be denied that assessee was not knowing the fact that after the purchase of old machinery to put the main machinery to working condition, Hydraulic system with electrical control panel are required to be replaced. After replacing Hydraulic system with electrical control panel to maintain the working capacity of the machine, the assessee has incurred expenditure. Therefore, it cannot be said that it is a revenue expenditure which gives enduring benefit to the assessee. The judgment relied by the ld. DR noted supra, the relevant part of the judgement is clearly applicable in the present facts of the case. Respectfully following the above judgment (para 15), we uphold that the expenditure incurred by the assessee is a capital expenditure and the assessee is eligible for depreciation as per law. The AO is directed to give necessary computation for depreciation as per law for the following years.

7. In the result, the appeal of the assessee is dismissed.

Pronounced in the open court on this 02<sup>nd</sup> day of April, 2025.

Sd/-

( KESHAV DUBEY )  
JUDICIAL MEMBER

Sd/-

( LAXMI PRASAD SAHU )  
ACCOUNTANT MEMBER

Bangalore,  
Dated, the 02<sup>nd</sup> April, 2025.

*/Desai S Murthy/*

Copy to:

1. Appellant
2. Respondent
3. Pr. CIT
4. CIT(A)
5. DR, ITAT, Bangalore.

By order

Assistant Registrar  
ITAT, Bangalore.